

CALIFORNIA LEGISLATURE
1961 REGULAR SESSION

ANALYSIS OF THE BUDGET BILL

of the

STATE OF CALIFORNIA

for the

Fiscal Year July 1, 1961, to June 30, 1962

Report of the Legislative Analyst

to the

Joint Legislative Budget Committee

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LETTER OF TRANSMITTAL

STATE CAPITOL
SACRAMENTO, CALIFORNIA
February 1, 1961

THE HONORABLE GEORGE MILLER, JR., *Chairman*
and Members of the Joint Legislative Budget Committee
State Capitol, Sacramento, California

GENTLEMEN: In accordance with the provisions of Government Code, Sections 9140-9143 and Joint Rule No. 37 of the Senate and Assembly creating the Joint Legislative Budget Committee, defining the duties of the committee and giving it authority to employ a Legislative Analyst, I submit an analysis of the Budget Bill of the State of California for the fiscal year July 1, 1961, to June 30, 1962.

The duty of the committee in this respect is set forth in Joint Rule No. 37 as follows:

“It shall be the duty of the committee to ascertain facts and make recommendations to the Legislature and to the houses thereof concerning the State Budget, the revenues and expenditures of the State, and of the organization and functions of the State, its departments, subdivisions and agencies, with a view of reducing the cost of the State Government, and securing greater efficiency and economy.”

Inasmuch as the 1961 session is a General Session we have attempted in this analysis to review not only the Budget Bill but certain other major expenditure programs which undoubtedly will be the subject of considerable legislation.

Under a new budget procedure adopted by the Director of Finance this year, we have not attended budget hearings between the Department and various agencies. However, the Department of Finance has been most helpful to us in supplying the information furnished by the agencies in support of their requests and has furnished us with advance information on the budget so that we are able to present this analysis to the Legislature within a few days following the presentation of the budget to the Legislature. For this generous assistance we are very grateful.

Respectfully submitted,

A. ALAN POST
Legislative Analyst

PRELIMINARY STATEMENT

FORM OF THE ANALYSIS

There are three sections to this analysis. Part I constitutes a preliminary statement which discusses the size of the Budget and Budget Bill, outlines the General Fund revenue and expenditure picture with particular reference to the fiscal problem which is presented, and provides a summary analysis of General Fund revenues and discusses the assumptions and economic data upon which the revenue estimates are based.

Part II contains a detailed item by item analysis of the Budget Bill with recommendations.

Part III reflects the fact that this is a General Session in which major legislation in the field of education and social welfare will be considered. These matters, for the most part, will not be included in the Budget Bill, since they are continuing appropriations. Moreover, they constitute the major part of the State's General Fund expenditure program and will be considered for additional major cost expansions, as indicated by the Governor's message to the Legislature. For these reasons, an outline of some of the principal cost features of public school apportionments and social welfare programs with consideration of certain changes which it is known will be presented to the Legislature seems to be in order.

BUDGET TOTALS

The budget for 1961-62 totals \$2,492,364,068 compared with \$2,638,055,445 for 1960-61, and \$2,085,583,806 for 1959-60. The apparent reduction of \$146 million in total expenditures for 1961-62 from 1960-61 is due, in large part, to a reduction of \$120 million in budgeted expenditures from the State Highway Fund. This, in turn, is a matter of budget presentation rather than an actual reduction in the level of total expenditures, since the highway program for 1960-61 was originally shown at \$242 million, is now re-estimated at \$373 million, and is more likely to approximate the original figure than the re-estimate. This affects the comparison between the current and the budget year. The General Fund portion of the budget totals \$1,726,416,097 which represents an increase of \$8,725,957 over last year.

The expenditure program proposed by the budget is divided into three major sections: State Operations, with budgeted expenditures of \$605,381,732, up \$57 million; Capital Outlay with proposed expenditures of \$14,881,744, down \$123.7 million; and Local Assistance at \$1,101,396,769, up \$76.3 million.

It should be noted that General Fund total expenditures and capital outlay expenditures are deceptive this year in that they do not portray the actual program for General Fund purposes, since capital outlay expenditures will primarily be made from bond funds. Whereas last year the state building program (which excludes highways and certain other special funds) amounted to \$138.6 million, and all new money for this purpose was financed from the General Fund, the 1961-62 program, financed from a combination of General Fund and credit sources, totals \$124.8 million, which is a decrease in program of only \$13.8 million rather than the \$123.7 million reduction which is reflected in General Fund capital outlay expenditures.

This method of borrowing approximately \$110 million to balance the budget re-establishes a policy which existed for a number of years prior to last year's pay-as-you-go principle in financing state government.

THE BUDGET BILL

The Budget Bill represents that part of the total budget which must be acted upon by the Legislature in the 1961 Session to carry out the total expenditure program proposed in the budget. The other proposed expenditures are provided for by existing statutes or by the Constitution. Generally speaking, the Budget Bill contains the various items in the state operations portion of the budget plus capital outlay (other than the special fund state highway program) and several of the numerous local assistance items. Characteristically, approximately one-third of the total budget will be contained in the budget bill. The remaining two-thirds does not require additional legislative action although it is still subject to the control of the Legislature through changes in statutes or to the extent of submitting proposed constitutional amendments to the electorate. The latter is subject to approval by vote of the people.

The principal expenditures which are provided for by the Constitution and by the Statutes include \$718 million in public school apportionments, \$254 million for the state highway system, \$246 million for social welfare assistance, and \$267 million in highway users revenues shared with cities and counties.

GENERAL FUND FINANCIAL PICTURE PRESENTED BY THE BUDGET

Because special funds activities are for the most part financed on a self-supporting basis from special fees and licenses dedicated to the support of the particular function, the real problem of balancing the budget characteristically is a General Fund problem.

This year is no exception. Despite the tax program which increased General Fund revenues by \$191.8 million in 1959-60, the first full year of revenue collections, and which will increase General Fund revenues by about \$258.6 million over what is estimated would have been received in 1961-62 had new taxes not been enacted, the budget proposed this session will be out of balance on a current income and outgo basis to the extent of \$32 million and if borrowings of \$110 million had not been used for capital outlay (these are not counted as outgo for budget purposes) the current deficit would have been \$142 million. These borrowings are primarily in the form of capital outlay bond funds as authorized by the electorate in 1956 and 1958, which provided a total of \$400 million for state construction, of which approximately \$150 million remains available unappropriated. After use of the \$100 million budgeted for expenditure in this budget, only \$50 million will remain. In addition to bonds, certificates of indebtedness in the amount of \$10 million are proposed to be used.

Without the use of borrowings the deficit between current income and outgo would be \$142 million. With only about \$50 million in bond funds remaining to be used to balance the budget the following, or 1962-63 fiscal year, and assuming that the increase in General Fund revenues that year does no more than keep pace with the growth in expenditure requirements and that capital outlay requirements remain unchanged,

a serious budget problem in the magnitude of \$92 million in additional tax revenues or new bond authorizations will result. Actually the large amount of planning money in the 1961-62 Budget anticipates greater construction requirements in 1962-63 than are reflected in the relationship between last year's planning expenditures and the construction appropriations in this 1961-62 Budget request. Based on the approval of planning money in this budget, the capital outlay construction budget for 1962-63 will be approximately \$140 million.

The nature of the growing imbalance between income and outgo parallels the situation which developed prior to the tax increase in 1959. The growth in expenditures in relation to revenue increases is reflected in the following figures.

General Fund revenues, including new taxes, have increased between 1959-60 and 1961-62 (as budgeted) in the amount of \$189,625,953.

On the expenditure side, these increases in major state support programs have taken place during the same period of time, 1959-60 to 1961-62 (as budgeted).

	<i>Increase</i>
1. Public school apportionments -----	\$84,120,461
2. University of California -----	33,982,119
3. State colleges -----	23,351,178
4. Social welfare -----	45,036,296
5. Mental hygiene -----	24,949,408
6. Corrections and Youth Authority -----	17,650,884
Total increase -----	\$229,090,346

Any serious attempt to correct this trend, which appears to be leading inevitably to additional tax increases, must deal with reduction or stabilization in these areas of growth, rather than increased borrowings for capital outlay. The latter serves only to defer final payment for several years, and encourages expansion in support costs beyond the ability of the tax structure to support them.

The small increases granted in this budget to many agencies reflects serious effort to keep expansion down. However, many additional economies are possible and our analysis attempts to identify these. In addition, much of the cost increase is in items outside the budget bill, such as public school apportionments and social welfare. Special legislation increasing these costs is therefore a matter which has a direct bearing on this fiscal problem.

NEW BUDGET PROCEDURE FOLLOWED

A new budget procedure adopted this year was designed to give firm allocations of funds to the various agencies and permit them greater latitude in framing their own proposals for using these sums. The usual public budget hearings, which our staff attended, were discontinued. Certain features of this new procedure should be commented upon.

1. The new procedure places a greater emphasis on legislative review, since the reduced role of the Department of Finance weakens central review.

2. The new procedure has limited the information which we have been able to secure from the agency, since we were in numerous circumstances instructed not to contact the agency with respect to budget information supplied in advance of publication. Thus, questions may be posed in the analysis which ordinarily we would have had answered for us.

3. The allotments were made at a time when revenues were in excess of estimates; i.e., June, 1960. Since then, revenues have fallen below budget estimates and the projected financial plan is not within current revenues. Borrowing has been called upon to meet budgeted expenditures.

4. The budget imposes an across-the-board cut plus latitude to the agencies to make their own program within the fiscal limits. The effect of this will be for some agencies to defer necessary expenditures and shift the cost to the future. An example of this is leaving presently authorized positions unfilled and asking for new positions. When money is available, the unfilled positions can be employed without the legislative review and approval which would be required if they were new positions. There are a substantial number of authorized but unfilled positions in the budget for which no financing is provided in the coming year, many of which have been unfilled for six months or longer.

5. The procedure in some instances tends to lead to a shift to chiefs rather than Indians. This budget reflects a number of new requests for supervisory positions which would have had a hard time getting through the Department of Finance in the past.

6. It has tended to permit the initiation of a number of small new programs which can be expected to expand rapidly.

7. The system of allocating budgeted funds to the agencies, with the current year expenditures as a base, leads to both over and under budgeting in some instances. We have noted many instances in the budget where equipment is budgeted at the same amount as estimated expenditures for last year without apparent consideration to special one-time needs which may have affected the base of allocation.

8. The system of allocating a fixed amount to the agencies, has, at least under current conditions, resulted in some re-examination by the agencies of their own priorities for expenditure.

REVENUE ESTIMATES

Total revenues from all sources including special funds are estimated for 1961-62 at \$2,428,324,332, which is an increase of \$85,138,315 or 3.6 percent, over estimated collections of \$2,343,186,017 for the current fiscal year. For the General Fund, collections for 1961-62 are estimated at \$1,680,718,000, which is an increase of \$73,698,000, or 4.6 percent, over the \$1,607,020,000 estimated for the current fiscal year.

General Fund revenues, by principal source, are shown in the following table:

General Fund Revenues
(Millions)

	1960-61	1961-62
Sales and use tax -----	\$714.5	\$752.0
Personal income tax -----	285.0	298.3
Bank and corporation taxes -----	273.0	285.0
Insurance tax -----	66.5	70.9
Cigarette tax -----	64.9	68.0
Inheritance and gift tax -----	69.7	66.5
Alcoholic beverage taxes -----	54.7	62.5
Horse racing taxes -----	16.1	16.4
Other sources -----	62.6	66.0
Total -----	\$1,607.0	\$1,680.7

The increase in General Fund estimated revenue for 1961-62 is attributable in part to growth and improved economic conditions and in part to new levies and tax revisions enacted at the 1959 Session.

For the current fiscal year, 1960-61, approximately \$248 million of the total tax revenue is attributable to the tax program enacted in the 1959 General Session, the balance being the result of the previous tax structure. For 1961-62 approximately \$258 million of the total tax revenue is estimated to result from the 1959 tax enactments.

The budget document indicates that the estimate of sales tax revenue for 1961-62 has been reduced by \$4.7 million to reflect the cost of adopting the Governor's proposal for legislation to eliminate the tax on prescription drugs.

In the budget document presented last year, General Fund revenue was estimated at \$1,468,520,895 for 1959-60 and \$1,617,145,875 for 1960-61. Thus, it now appears that actual revenue collections for 1959-60 have exceeded the estimate by \$22,571,105 and collections for the current, 1960-61, fiscal year are re-estimated to be \$10 million below budget estimates. With respect to these two fiscal years, the net gain is some \$12.5 million improvement in General Fund condition over the amount estimated in the budget last year. The revenue increase for the budget year over the current year, in this budget document, is projected at \$73.7 million, whereas the corresponding increase projected for the budget year last year was \$149 million. The reduced rate of increase is due to two factors: a slowing in the rate of economic growth, and the diminishing effect, with respect to the prior year, of tax changes enacted in 1959.

Within recent weeks we have been permitted to review the details of the revenue estimates of the Department of Finance and the economic assumptions which underlie them, and we believe that the estimates are reasonable and supportable. There are many uncertainties in projecting economic behavior, and a relatively small percentage change in a number of assumptions could affect General Fund revenues by several million dollars.

The Department of Finance bases its 1961-62 revenue estimate on the forecast that gross national product for 1961 will be \$507.5 billion and that personal income, as a result of this and other factors, will be

\$412 billion of which Californians will receive \$44.5 billion. Calculated in terms of each \$100 of personal income, the General Fund will, therefore, collect taxes of \$3.63, or a total of \$1,617,944,000.

This would appear to be a reasonable estimate in view of current and predicted economic conditions. The Department of Finance gross national product figure is fairly close to the average gross national product of \$510 billion predicted by 10 reputable organizations throughout the country. Should this higher average prove to be right, and if the \$3.63 tax collection figure per \$100 of personal income were used, the General Fund's maximum additional tax income would be less than \$12 million.

Finance's revenue estimates specifically assume a decline in economic activity during the first six months of 1961. Thereafter a progressively higher upward movement is expected into 1962, the rate and magnitude depending to a considerable extent upon the stimulating actions of the Federal Government as well as expenditures at all levels of government.

In addition to the stimulants which derive directly from government, the gross national product and personal income will be affected by population increases and the attendant demands for goods and services. California's population continues to increase at an annual rate of over 3.5 percent compared with 2 percent for the nation as a whole. On July 1, 1961, the State's population is estimated to be 16.4 million, up some 500,000 from the previous year.

GENERAL FUND TRENDS

In Table I, which follows, there is shown a summary of the trend in General Fund financing for the period since 1948. This will show General Fund income, outgo, the surplus or deficit with respect to each year, and the cumulative surplus or deficit of the end of each fiscal period including the estimated for 1961-62. This table indicates that, for the period shown, General Fund revenue has increased from \$510 million to \$1,694 million, or an increase of 232.1 percent, while General Fund outgo has increased from \$507 million to \$1,726 million, or an increase of 240.4 percent. For 10 of the 14 years shown, expenditures exceeded revenue creating a deficit on a current basis, while for four of the years revenues exceeded expenditures for a current surplus. The high point in General Fund cumulative surplus was in 1951-52 while the next highest was in 1955-56.

The trend in income and outgo for the same period is shown in chart form in Chart I, which also follows. This is based upon the data presented in Table I except that the expenditure level is shown in terms of expenditures from the General Fund plus actual and proposed expenditures from State Construction Bond funds for capital outlay. As explained elsewhere in this Analysis, expenditures from bond funds are carried in the budget totals only to the extent of interest and redemption requirements for each fiscal year. Since the financing of capital outlay within recent years has been in various relationships as between current funds and bond funds, with little authorized bond

funds remaining, it has appeared to us that a better picture of the trend in level of expenditure requirements results from including, rather than excluding, capital outlay expended and proposed from bond funds. From the expenditure total on this basis, the annual cost of interest and redemption has been deducted.

CHART I

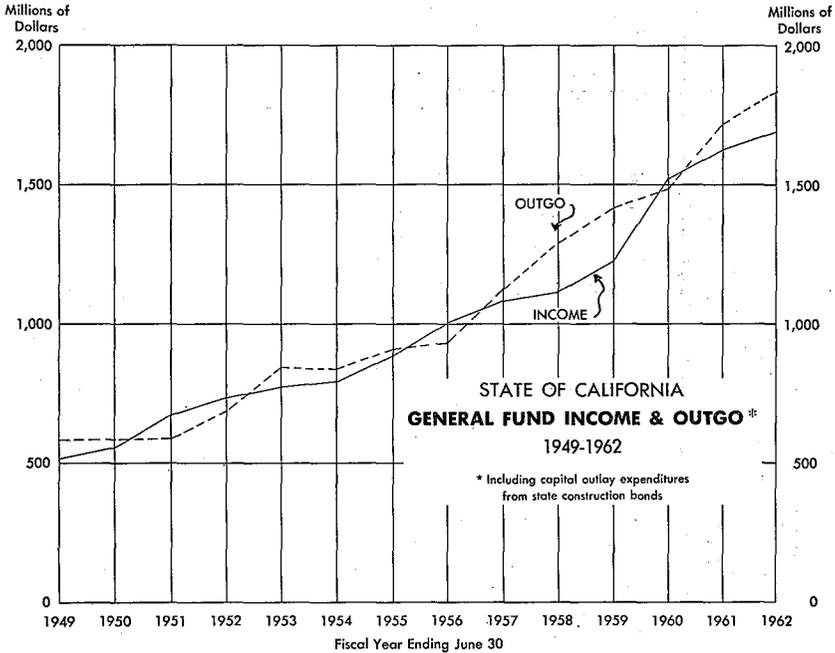


TABLE 1—CALIFORNIA'S GENERAL FUND
INCOME, OUTGO AND SURPLUS—1948-49 TO 1961-62

	Revenue	Expenditures	Outgo		Current revenue surplus (+) or deficiency (—)	Adjustments ²	Cumulative surplus
			Transfers ¹ to reserves	Total outgo			
July 1, 1948 -----							\$143,096,390
1948-49 -----	\$510,440,640	\$507,625,919	\$79,975,867 ³	\$587,601,786	—\$77,161,146	—\$9,366,383	56,568,861
1949-50 -----	551,240,969	577,171,910	—	577,171,910	—25,930,941	+6,214,151	36,852,071
1950-51 -----	672,064,783	588,508,776	—	588,508,776	+83,556,007	+437,815	120,845,893
1951-52 -----	734,025,725	637,088,802	49,258,938 ⁴	686,297,740	+47,727,985	+1,406,542	169,980,420
1952-53 -----	773,977,227	716,575,373	129,739,439 ⁵	846,314,812	—72,337,585	—253,582	97,389,253
1953-54 -----	798,083,615	810,662,483	33,192,465 ⁶	843,854,948	—45,771,333	+2,186,055	53,803,975
1954-55 -----	879,122,544	854,431,938	49,136,730 ⁷	903,568,668	—24,446,124	+47,131,057 ⁸	76,488,908
1955-56 -----	1,005,040,608	924,890,722	17,075,600 ⁹	941,966,322	+63,074,286	+6,166,218 ¹⁰	145,729,412
1956-57 -----	1,078,908,045	1,032,721,442	86,106,809 ¹¹	1,118,828,251	—39,920,206	+3,885,619 ¹²	109,694,825
1957-58 -----	1,110,802,855	1,151,666,108	94,795,669 ¹³	1,246,461,777	—135,658,922	+32,785,297 ¹⁴	6,821,200
1958-59 -----	1,223,947,071	1,275,519,777	4,485,757 ¹⁵	1,280,005,534	—56,058,463	+68,225,276 ¹⁶	18,988,013
1959-60 -----	1,509,619,395	1,437,240,427	—	1,437,240,427	72,378,968	+37,885,192 ¹⁷	129,252,173
1960-61 (Estimated) ---	1,620,986,340	1,717,690,140	—	1,717,690,140	—96,703,800	—	32,548,373
1961-62 (Proposed) ---	1,694,335,699	1,726,416,097	—	1,726,416,097	—32,080,393	—	467,975

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¹ Transfers to the legislative contingent funds treated as expenditures. Miscellaneous minor transfers treated as expenditures or adjustments to surplus. With the exception of \$50,000,000 transferred to the School Bond Retirement Fund, the transfers of 1951-52 and subsequent years represent transfers for expenditure in the year in which transferred rather than sums reserved for expenditure in future years.

² Includes adjustments for prior years and changes in methods of accounting for revenues and expenditures and transfers to the General Fund.

³ \$59,206,003 transferred to the Postwar Employment Reserve, \$13,445,883 transferred to the State Beach and State Park Funds and \$7,323,981 transferred to the Postwar Unemployment and Construction Fund.

⁴ \$49,258,938 transferred to the Capital Outlay and Savings Fund.

⁵ \$79,739,439 transferred to the Capital Outlay and Savings Fund and \$50,000,000 transferred to the School Bond Retirement Fund.

⁶ \$33,192,465 transferred to the Capital Outlay and Savings Fund.

⁷ \$45,287,193 transferred to the Capital Outlay and Savings Fund and \$3,849,537 transferred to the Flood Control Fund of 1946.

⁸ Transfers are \$27,369,821 from the School Bond Retirement Fund, \$2,374,443 from the Employment Contingent Fund, \$1,946,558 from the State Park Fund, and \$4,121,209 from the State Beach Fund.

⁹ \$13,666,591 transferred to the Capital Outlay and Savings Fund and \$3,409,009 transferred to the Flood Control Fund of 1946.

¹⁰ Major transfers are \$3,567,335 from the Beach and Park Funds and \$1,288,297 from the Employment Contingent Fund.

¹¹ \$80,537,750 for transfer to the Capital Outlay and Savings Fund, and \$5,184,110 for transfer to the Flood Control Fund of 1946.

¹² Major transfers are \$1,382,462 from the Architecture Public Building Fund, \$1,430,454 from the Employment Contingent Fund, and \$557,000 from the Flood Control Fund.

¹³ Major transfers represent principally \$84,755,435 for the Capital Outlay and Savings Fund and \$10,817,590 for the Flood Control Fund of 1946.

¹⁴ Major transfers are \$18,673,000 from the Teachers' Retirement Fund, \$10,000,000 from the School Bond Retirement Fund, and \$1,200,000 from the State College Fund.

¹⁵ Major transfers represent principally \$13,768,464 for the Capital Outlay and Savings Fund and \$5,843,379 for the Flood Control Fund of 1946.

¹⁶ Major transfers are \$55,000,000 from the Revenue Deficiency Reserve, \$5,106,133 from the School Bond Retirement Fund, \$9,132,522 from the Investment Fund.

¹⁷ Major transfers represent principally \$23,857,050 from the Capital Outlay and Savings Fund, \$14,028,142 from the Flood Control Fund of 1946, and a one-time transfer of \$16,507,630 from the Fair and Exposition Fund.